

CITY OF MADRID

Independent Auditors' Reports
Basic Financial Statements and Supplementary Information
Schedule of Findings

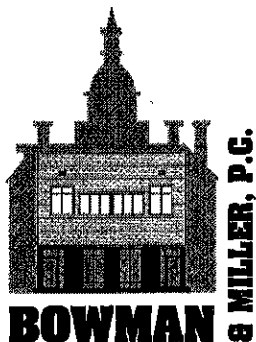
June 30, 2011

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CITY OF MADRID

Officials		
<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Gibbons	Mayor	Jan 2012
Donald Lincoln	Mayor Pro Tem	Jan 2014
Steve Burich	Council Member	Jan 2014
Val Chapman	Council Member	Jan 2014
Mike Heeren	Council Member	Jan 2012
Lane Shaver	Council Member	Jan 2012
Todd Kilzer	City Administrator	Jan 2012
Donald Fatka	City Treasurer	Jan 2012
John Jordan	City Attorney	Jan 2012



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

24 EAST MAIN STREET • MARSHALLTOWN, IOWA 50158 • 641-753-9337 • FAX 641-753-6366
418 2ND STREET • GLADBROOK, IOWA 50635 • 641-473-2717 • FAX 641-753-6366
4949 PLEASANT STREET • SUITE 206 • WEST DES MOINES, IOWA 50266 • 515-278-0286 • FAX 515-278-0287

James R. Bowman, CPA • jim@bowmanandmillerpc.com
Elizabeth A. Miller, CPA • beth@bowmanandmillerpc.com

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Madrid's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2011 on our consideration of the City of Madrid's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 23 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madrid's basic financial statements. The financial statements for the year ended June 30, 2003 (which are not presented herein) were audited by other auditors who expressed an unqualified opinion on those financial statements which were prepared on an other comprehensive basis of accounting. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bowman and Miller, P.C.

Marshalltown, Iowa
October 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Madrid provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 10.6%, or approximately \$191,300, from fiscal year 2010 to fiscal year 2011. Property tax increased approximately \$19,100, proceeds from loans increased approximately \$165,800 and the City received tax increment financing of approximately \$86,800.
- Disbursements of the City's governmental activities decreased 0.2%, or approximately \$4,100, in fiscal year 2011 from fiscal year 2010. Public safety and capital projects disbursements increased approximately \$155,700 and \$56,400, respectively, while public works and culture and recreation disbursements decreased approximately \$17,400 and \$150,600, respectively.
- The City's total cash basis net assets increased by 34%, or approximately \$375,800, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$211,000 and the assets of the business type activities increased approximately \$164,800.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Emergency, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased significantly from a year ago, increasing from approximately \$637,000 to approximately \$848,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 199,009	197,657
Operating grants, contributions and restricted interest	328,997	315,256
Capital grants, contributions and restricted interest	185,952	170,555
General receipts:		
Property tax	759,077	740,006
Tax increment financing	86,754	42,580
Other city tax	189,546	184,018
Special assessments	4,865	11,048
Unrestricted interest on investments	10,634	11,508
Loan proceeds	180,750	15,000
Other general receipts	45,553	112,189
Total receipts	<u>1,991,137</u>	<u>1,799,817</u>
Disbursements:		
Public safety	468,790	313,050
Public works	409,121	426,480
Health and social services	4,000	4,000
Culture and recreation	221,489	372,128
Community and economic development	35,404	81,105
General government	139,870	135,435
Debt service	355,335	362,222
Capital projects	152,112	95,757
Total disbursements	<u>1,786,121</u>	<u>1,790,177</u>
Change in cash basis net assets before transfers	205,016	9,640
Transfers, net	<u>6,000</u>	<u>62,500</u>
Change in cash basis net assets	211,016	72,140
Cash basis net assets beginning of year	<u>636,922</u>	<u>564,782</u>
Cash basis net assets end of year	\$ <u>847,938</u>	<u>636,922</u>

The City's total receipts for governmental activities increased 10.6%, or approximately \$191,300. The total cost of all programs and services decreased approximately \$4,100, or 0.2%, with no new programs added this year. The increase in receipts was primarily the result of an increase in property taxes, tax increment financing and loan proceeds in the amount of \$180,750 received for acquisition of a new fire truck.

The City did not increase property tax rates for fiscal year 2011; however, an increase in the City's total assessed valuation raised the City's property tax receipts approximately \$19,000 in fiscal year 2011. Based on a slight increase in property tax rates and increases in the total assessed valuation, property tax receipts are budgeted to increase an additional \$37,000 next year.

The cost of all governmental activities this year was approximately \$1,786,000 compared to approximately \$1,790,000 last year. However, as shown in the Statement of Activities and Net Assets on

pages 9 – 10, the amount taxpayers ultimately financed for these activities was only \$1,072,163 because some of the cost was paid by those directly benefited from the programs (\$199,009) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$514,949). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2011 from approximately \$683,000 to \$714,000. The City paid for the remaining "public benefit" portion of governmental activities (\$1,072,163) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities			
		Year ended June 30,	
		2011	2010
Receipts:			
Program receipts:			
Charges for service:			
Water	\$	371,927	363,518
Sewer		243,678	234,824
General receipts:			
Unrestricted interest on investments		2,907	3,414
Other general receipts		<u>15,843</u>	<u>12,157</u>
Total receipts		<u>634,355</u>	<u>613,913</u>
Disbursements:			
Water		308,761	351,435
Sewer		<u>154,811</u>	<u>136,847</u>
Total disbursements		<u>463,572</u>	<u>488,282</u>
Change in cash basis net assets before transfers		170,783	125,631
Transfers, net		<u>(6,000)</u>	<u>(62,500)</u>
Change in cash basis net assets		164,783	63,131
Cash basis net assets beginning of year		<u>467,719</u>	<u>404,588</u>
Cash basis net assets end of year	\$	<u>632,502</u>	<u>467,719</u>

Total business type activities receipts for the fiscal year were approximately \$634,500 compared to approximately \$613,900 last year. The slight increase was primarily due to an increase in water and sewer charges resulting from the 5% increase in water and sewer rates approved by the council during the current year. Total disbursements for the fiscal year decreased 5.1% to approximately \$463,600. The decrease was primarily the result of the final payment of the water revenue bond being made in fiscal year 2010. The cash balance increased approximately \$164,800 from the prior year because of the increase in receipts and decrease in disbursements.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of \$847,938, an increase of \$211,016 from last year's total of \$636,922. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$205,487 from the prior year to \$464,660. This is due mainly to a decrease in culture and recreation expenses resulting from the completion of the A to W trail in the previous fiscal year.
- The Road Use Tax Fund cash balance increased \$47,101 to \$171,164 during the fiscal year. The increase is primarily related to a decrease in street resurfacing costs.

- The Employee Benefits Fund cash balance remained virtually unchanged from the prior year.
- The Emergency Fund cash balance remained virtually unchanged from the prior year.
- The Debt Service Fund cash balance remained virtually unchanged from the prior year.
- The Capital Projects Fund cash balance decreased \$36,920 to \$41,635 during the fiscal year. The decrease is primarily a result of an increase in disbursements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$79,071 to \$342,413. This is a result of the final payment on the water revenue bonds being made in fiscal year 2010.
- The Enterprise, Sewer Fund cash balance increased \$85,712 to \$290,089 due primarily to a decrease in the dollars transferred out to other funds in the current year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The budget amendment was approved on June 6, 2011, and included a decrease of \$403,382 to revenues and a decrease of \$483,266 to disbursements. The amendment was mainly the result of less capital project work being done than planned, and thus, fewer grant reimbursements were received than anticipated.

Even with the budget amendment, the City exceeded amounts budgeted in the community and economic development, general government, and debt service functions for the year ended June 30, 2011.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$2,295,575 in bonds and other long-term debt outstanding, compared to \$2,393,187 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation bonds	\$ 2,275,750	2,355,000
Other long-term debt	<u>19,825</u>	<u>38,187</u>
Total	\$ <u>2,295,575</u>	<u>2,393,187</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,275,750 is below its constitutional debt limit of \$4,314,785.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Madrid's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Todd Kilzer, City Administrator, 304 S. Water Street, Madrid, Iowa 50156.

CITY OF MADRID
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 468,790	-	34,714	-
Public works	409,121	143,075	236,231	-
Health and social services	4,000	5,253	-	-
Culture and recreation	221,489	50,681	58,052	78,760
Community and economic development	35,404	-	-	-
General government	139,870	-	-	-
Debt service	355,335	-	-	-
Capital projects	152,112	-	-	107,192
Total governmental activities	1,786,121	199,009	328,997	185,952
Business type activities:				
Water	308,761	371,927	-	-
Sewer	154,811	243,678	-	-
Total business type activities	463,572	615,605	-	-
Total	\$ 2,249,693	814,614	328,997	185,952

General receipts and Transfers:

Property tax levied for:
 General purposes
 Debt service
 Employee benefits
Tax increment financing
Other city tax
Licenses and permits
Unrestricted interest on investments
Special assessments
Loan proceeds
Miscellaneous
Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

 Expendable:

 Streets
 Employee benefits
 Emergency
 Debt service
 Capital projects
 Other purposes

Unrestricted

Total cash basis net assets

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(434,076)	-	(434,076)
(29,815)	-	(29,815)
1,253	-	1,253
(33,996)	-	(33,996)
(35,404)	-	(35,404)
(139,870)	-	(139,870)
(355,335)	-	(355,335)
(44,920)	-	(44,920)
(1,072,163)	-	(1,072,163)
-	63,166	63,166
-	88,867	88,867
-	152,033	152,033
(1,072,163)	152,033	(920,130)
416,631	-	416,631
225,450	-	225,450
116,996	-	116,996
86,754	-	86,754
189,546	-	189,546
17,358	-	17,358
10,634	2,907	13,541
4,865	-	4,865
180,750	-	180,750
28,195	15,843	44,038
6,000	(6,000)	-
1,283,179	12,750	1,295,929
211,016	164,783	375,799
636,922	467,719	1,104,641
\$ 847,938	632,502	1,480,440
\$ 171,164	-	171,164
83,606	-	83,606
1,024	-	1,024
36,369	-	36,369
41,635	-	41,635
49,480	-	49,480
464,660	632,502	1,097,162
\$ 847,938	632,502	1,480,440

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2011

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
Receipts:				
Property tax	\$ 405,155	-	116,996	11,476
Tax increment financing	-	-	-	-
Other city tax	179,325	-	3,502	339
Licenses and permits	17,358	-	-	-
Use of money and property	11,809	-	-	-
Intergovernmental	119,123	236,231	-	-
Charges for service	199,009	-	-	-
Special assessments	-	-	-	-
Miscellaneous	79,273	-	-	-
Total receipts	1,011,052	236,231	120,498	11,815
Disbursements:				
Operating:				
Public safety	393,238	-	75,552	-
Public works	179,656	182,130	47,335	-
Health and social services	4,000	-	-	-
Culture and recreation	204,510	-	13,987	-
Community and economic development	35,404	-	-	-
General government	121,267	-	14,287	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	938,075	182,130	151,161	-
Excess (deficiency) of receipts over (under) disbursements	72,977	54,101	(30,663)	11,815
Other financing sources (uses):				
Loan proceeds	180,750	-	-	-
Operating transfers in	11,760	-	30,000	-
Operating transfers out	(60,000)	(7,000)	-	(11,760)
Total other financing sources (uses)	132,510	(7,000)	30,000	(11,760)
Net change in cash balances	205,487	47,101	(663)	55
Cash balances beginning of year	259,173	124,063	84,269	969
Cash balances end of year	\$ 464,660	171,164	83,606	1,024

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
225,450	-	-	759,077
-	-	86,754	86,754
6,380	-	-	189,546
-	-	-	17,358
-	-	150	11,959
-	107,192	-	462,546
-	-	-	199,009
4,865	-	-	4,865
-	-	-	79,273
236,695	107,192	86,904	1,810,387

-	-	-	468,790
-	-	-	409,121
-	-	-	4,000
-	-	2,992	221,489
-	-	-	35,404
-	-	4,316	139,870
355,335	-	-	355,335
-	152,112	-	152,112
355,335	152,112	7,308	1,786,121
(118,640)	(44,920)	79,596	24,266

-	-	-	180,750
118,414	8,000	-	168,174
-	-	(83,414)	(162,174)
118,414	8,000	(83,414)	186,750
(226)	(36,920)	(3,818)	211,016
36,595	78,555	53,298	636,922
36,369	41,635	49,480	847,938

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds (Continued)
As of and for the year ended June 30, 2011

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	171,164	-	-
Employee benefits	-	-	83,606	-
Emergency	-	-	-	1,024
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes				
Assigned for:				
Fire equipment	51,737	-	-	-
Park	771	-	-	-
Unassigned	412,152	-	-	-
Total cash basis fund balances	\$ 464,660	171,164	83,606	1,024

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
-	-	-	171,164
-	-	-	83,606
-	-	-	1,024
36,369	-	-	36,369
-	41,635	-	41,635
		49,480	49,480
-	-	-	51,737
-	-	-	771
-	-	-	412,152
36,369	41,635	49,480	847,938

CITY OF MADRID

Exhibit C

Statement of Cash Receipts, Disbursements and Changes in Cash Balances

Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 371,927	243,678	615,605
Miscellaneous	15,843	-	15,843
Total operating receipts	387,770	243,678	631,448
Operating disbursements:			
Business type activities	308,761	154,811	463,572
Excess of operating receipts over operating disbursements	79,009	88,867	167,876
Non-operating receipts:			
Interest on investments	2,062	845	2,907
Excess of receipts over disbursements	81,071	89,712	170,783
Other financing uses:			
Operating transfers out	(2,000)	(4,000)	(6,000)
Net change in cash balances	79,071	85,712	164,783
Cash balances beginning of year	263,342	204,377	467,719
Cash balances end of year	\$ 342,413	290,089	632,502
Cash Basis Fund Balances			
Unreserved	\$ 342,413	290,089	632,502
Total cash basis fund balances	\$ 342,413	290,089	632,502

CITY OF MADRID

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Madrid is a political subdivision of the State of Iowa located in Boone County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Madrid has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Madrid has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provides goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Boone County Landfill Commission, Emergency Management Board, Madrid Historical Society Board, Lowery Trust Board, Central Iowa Regional Housing Authority, and the Boone County 911 Board. The City also has a cost-sharing agreement with the Boone County Sheriff Department for communication costs.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Emergency Fund is used to account for property taxes levied to pay for emergency purposes.

The Employee Benefits Fund is used to account for property taxes levied to pay employee taxes and benefits.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Madrid maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spend because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

CITY OF MADRID

Notes to Financial Statements (Continued)

June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the community and economic development, general government, and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the City had the following investment:

	<u>Cost</u>	<u>Market Value</u>
19 Shares IBM Stock	<u>\$757</u>	<u>\$3,259</u>

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and note are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 250,000	71,095	20,000	17,196	270,000	88,291
2013	225,000	62,410	50,000	14,415	275,000	76,825
2014	195,000	54,230	77,594	12,565	272,594	66,795
2015	200,000	47,400	77,594	9,702	277,594	57,102
2016	205,000	40,025	77,594	6,769	282,594	46,794
2017-2021	655,000	103,955	112,968	11,188	767,968	115,143
2022	130,000	5,525	-	-	130,000	5,525
Total	\$1,860,000	384,640	415,750	71,835	2,275,750	456,475

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2011

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$41,280, 36,149, and \$33,839 respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 10 active and -0- retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$454 for single coverage and \$1,392 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed 100% of the plan membership at a cost of \$101,005.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	<u>\$ 19,541</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) Lease Purchase Obligation

The City has entered into a capital lease with John Deere Leasing Company for the purchase of a backhoe and loader. Annual payments totaling \$15,013 are required for the lease payment. The following is the information relating to the lease:

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2011

(7) Lease Purchase Obligation (Continued)

Leased From	Interest Rate	Date		Principal Balance June 30, 2011	Item Leased
		Issued	Due		
John Deere Leasing Co.	5.75%	March 15, 2007	March 15, 2012	<u>\$14,176</u>	Backhoe and Loader

The following is a schedule by years of future minimum lease payments under this lease:

Year Ending June 30	
2012	<u>15,013</u>
Total minimum lease payments	15,013
Less: Amount representing interest	<u>837</u>
Present value of net minimum payments	<u>\$ 14,176</u>

(8) Note Payable

The City's obligation under the note payable at June 30, 2011 is as follows:

<u>Due to</u>	<u>Rate</u>	<u>Due</u>	<u>Balance</u>
City State Bank secured by police car payable \$446 monthly	4.50%	August 1, 2012	\$ <u>5,649</u>

Maturities of the note payable are as follows:

<u>Year Ending June 30,</u>	
2012	5,204
2013	<u>445</u>
	\$ <u>5,649</u>

(9) Risk Management

The City of Madrid is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2011

(10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General Fund	Special Revenue: Emergency	\$ 11,760
Debt Service	General	30,000
	Special Revenue: Road Use Tax	5,000
	Tax Increment Financing	<u>83,414</u>
		118,414
Special Revenue: Employee Benefit	General	30,000
Capital Projects	Special Revenue: Road Use Tax	2,000
	Water	2,000
	Sewer	<u>4,000</u>
		<u>8,000</u>
Total		\$ <u>168,174</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(11) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	General	Special Revenue	
		Jensen Park	Fire Equipment
Balances June 30, 2010, as previously reported	\$225,109	219	33,845
Change in fund type classification per implementation of GASB Statement No. 54	<u>34,064</u>	<u>(219)</u>	<u>(33,845)</u>
Balances July 1, 2010, as restated	<u>\$259,173</u>	<u>-</u>	<u>-</u>

(12) Subsequent Events

The City has evaluated all subsequent events through October 31, 2011, the date the financial statements were available to be issued.

CITY OF MADRID
Budgetary Comparison Schedule of Receipts, Disbursements,
and Changes in Balances-Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 759,077	-
Tax increment financing	86,754	-
Other city tax	189,546	-
Licenses and permits	17,358	-
Use of money and property	11,959	2,907
Intergovernmental	462,546	-
Charges for service	199,009	615,605
Special assessments	4,865	-
Miscellaneous	79,273	15,843
Total receipts	<u>1,810,387</u>	<u>634,355</u>
Disbursements:		
Public safety	468,790	-
Public works	409,121	-
Health and social services	4,000	-
Culture and recreation	221,489	-
Community and economic development	35,404	-
General government	139,870	-
Debt service	355,335	-
Capital projects	152,112	-
Business type activities	-	463,572
Total disbursements	<u>1,786,121</u>	<u>463,572</u>
Excess of receipts over disbursements	24,266	170,783
Other financing sources (uses), net	<u>186,750</u>	<u>(6,000)</u>
Excess of receipts and other financing sources over disbursements and other financing uses	211,016	164,783
Balances beginning of year	<u>636,922</u>	<u>467,718</u>
Balances end of year	<u>\$ 847,938</u>	<u>632,501</u>

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
759,077	758,933	758,933	144
86,754	84,414	84,414	2,340
189,546	197,861	193,161	(3,615)
17,358	11,000	13,000	4,358
14,866	20,700	11,000	3,866
462,546	1,438,707	1,150,372	(687,826)
814,614	838,300	784,095	30,519
4,865	5,500	6,000	(1,135)
95,116	126,250	77,308	17,808
2,444,742	3,481,665	3,078,283	(633,541)
468,790	429,985	515,455	46,665
409,121	439,480	419,090	9,969
4,000	4,000	4,000	-
221,489	358,913	327,420	105,931
35,404	24,100	32,100	(3,304)
139,870	149,335	131,990	(7,880)
355,335	354,698	355,035	(300)
152,112	1,050,000	515,700	363,588
463,572	487,860	514,315	50,743
2,249,693	3,298,371	2,815,105	565,412
195,049	183,294	263,178	(68,129)
180,750	-	-	180,750
375,799	183,294	263,178	112,621
1,104,640	1,015,145	1,015,145	89,495
1,480,439	1,198,439	1,278,323	202,116

CITY OF MADRID

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$483,266. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the community and economic development, general government, and debt service functions.

CITY OF MADRID
Schedule of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2011

	Special Revenue			Total
	Boyd Library	Helms Estate	Tax Increment Financing	
Receipts:				
Tax increment financing	\$ -	-	86,754	86,754
Use of money and property	87	63	-	150
Total receipts	87	63	86,754	86,904
Disbursements:				
Operating:				
Culture and recreation	2,992	-	-	2,992
General government	-	4,316	-	4,316
Total disbursements	2,992	4,316	-	7,308
Excess (deficiency) of receipts over (under) disbursements	(2,905)	(4,253)	86,754	79,596
Other financing uses:				
Operating transfers out	-	-	(83,414)	(83,414)
Net change in cash balances	(2,905)	(4,253)	3,340	(3,818)
Cash balances beginning of year	31,580	24,752	(3,034)	53,298
Cash balances end of year	\$ 28,675	20,499	306	49,480
Cash Basis Fund Balances				
Restricted for other purposes	\$ 28,675	20,499	306	49,480
Total cash basis fund balances	\$ 28,675	20,499	306	49,480

CITY OF MADRID
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Street improvement	Mar 15, 2004	1.45 - 4.15 %	\$ 395,000
Water/sewer improvement	Jan 1, 2006	3.60 - 4.40	310,000
Fire department rescue	Sep 15, 2007	4.80	135,000
Corporate purpose and refunding	Apr 15, 2008	2.50 - 4.25	2,140,000
Fire truck acquisition	Jan 26, 2011	3.30	180,750
Total			
Lease:			
John Deere backhoe	Mar 15, 2007	5.75 %	\$ 64,938
Bank loan:			
Police car	Aug 9, 2009	4.50 %	\$ 15,010

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 255,000	-	20,000	235,000	9,830	-
250,000	-	55,000	195,000	10,142	-
75,000	-	25,000	50,000	3,600	-
1,775,000	-	160,000	1,615,000	65,310	-
-	180,750	-	180,750	-	-
<u>\$ 2,355,000</u>	<u>180,750</u>	<u>260,000</u>	<u>2,275,750</u>	<u>88,882</u>	<u>-</u>
 \$ 27,561	 -	 13,385	 14,176	 1,627	 -
 \$ 10,625	 -	 4,976	 5,649	 377	 -

CITY OF MADRID
Bond and Note Maturities
June 30, 2011

Year Ending June 30,	General Obligation Bonds							
	Corporate Purpose and Refunding				Water/Sewer Improvement		Fire Department Rescue	
	Issued Apr 15, 2008				Issued Jan 1, 2006		Issued Sep 15, 2007	
	Interest				Interest		Interest	
	Rates		Amount		Rates	Amount	Rates	Amount
2012	3.10	%	\$ 165,000		3.95	% \$ 60,000	4.80	% \$ 25,000
2013	3.25		140,000		4.05	60,000	4.80	25,000
2014	3.40		170,000		4.20	25,000	-	-
2015	3.60		175,000		4.30	25,000	-	-
2016	3.80		180,000		4.40	25,000	-	-
2017	3.90		185,000		-	-	-	-
2018	4.00		110,000		-	-	-	-
2019	4.10		115,000		-	-	-	-
2020	4.15		120,000		-	-	-	-
2021	4.20		125,000		-	-	-	-
2022	4.25		130,000		-	-	-	-
Total			<u>\$ 1,615,000</u>			<u>\$ 195,000</u>		<u>\$ 50,000</u>

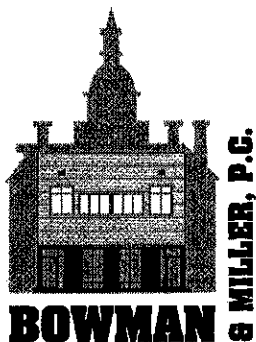
General Obligation Notes					
Street Improvement			Fire Truck Acquisition		
Issued Mar 15, 2004			Issued Jan 26, 2011		
Interest Rates	Amount		Interest Rates	Amount	
3.55 %	\$	20,000	3.30 %	\$	-
3.70		50,000	3.30		-
3.85		55,000	3.30	22,594	272,594
4.00		55,000	3.30	22,594	277,594
4.15		55,000	3.30	22,594	282,594
-		-	3.30	22,594	207,594
-		-	3.30	22,594	132,594
-		-	3.30	22,594	137,594
-		-	3.30	22,593	142,593
-		-	3.30	22,593	147,593
-		-	-	-	130,000
	\$	<u>235,000</u>		\$	<u>180,750</u>
					<u>\$ 2,275,750</u>

CITY OF MADRID
Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Nine Years

	2011	2010	2009	2008
Receipts:				
Property tax	\$ 759,077	740,006	681,460	630,677
Tax increment financing	86,754	42,580	-	-
Other city tax	189,546	184,018	196,485	190,788
Licenses and permits	17,358	14,429	13,975	9,941
Use of money and property	11,959	12,488	15,304	45,888
Intergovernmental	462,546	407,747	332,053	239,585
Charges for services	199,009	197,658	203,925	184,450
Special assessments	4,865	11,048	7,717	5,449
Miscellaneous	79,273	174,843	137,522	78,354
Total	\$ 1,810,387	1,784,817	1,588,441	1,385,132
Disbursements:				
Operating:				
Public safety	\$ 468,790	313,050	279,988	559,301
Public works	409,121	426,480	416,309	378,406
Health and social services	4,000	4,000	4,000	4,049
Culture and recreation	221,489	372,128	285,361	215,486
Community and economic development	35,404	81,105	57,774	29,854
General government	139,870	135,435	134,075	158,746
Debt service	355,335	362,222	356,042	2,410,641
Capital projects	152,112	95,757	48,617	1,173,743
Total	\$ 1,786,121	1,790,177	1,582,166	4,930,226

2007	2006	2005	2004	2003
588,149	472,709	452,153	442,715	411,177
-	-	-	-	45,959
180,565	202,013	183,946	188,857	162,798
12,364	16,629	11,201	1,912	4,014
34,033	23,586	12,134	16,595	18,473
425,411	502,833	248,810	231,545	256,812
169,381	175,502	173,812	128,726	118,802
13,172	18,275	18,499	19,400	41,524
39,638	55,900	72,558	67,744	151,594
1,462,713	1,467,447	1,173,113	1,097,494	1,211,153

328,991	305,736	301,401	292,206	255,197
373,658	405,484	379,831	355,629	326,311
3,802	3,600	3,606	3,530	2,900
240,583	197,725	185,677	167,677	151,537
22,210	62,403	15,570	8,902	9,568
147,211	145,762	154,092	121,865	101,409
289,398	267,243	264,385	224,577	172,815
217,010	369,431	465,860	227,732	778,715
1,622,863	1,757,384	1,770,422	1,402,118	1,798,452



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

24 EAST MAIN STREET • MARSHALLTOWN, IOWA 50158 • 641-753-9337 • FAX 641-753-6366
418 2ND STREET • GLADBROOK, IOWA 50635 • 641-473-2717 • FAX 641-753-6366
4949 PLEASANT STREET • SUITE 206 • WEST DES MOINES, IOWA 50266 • 515-278-0286 • FAX 515-278-0287

James R. Bowman, CPA • jim@bowmanandmillerpc.com
Elizabeth A. Miller, CPA • beth@bowmanandmillerpc.com

Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 31, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Madrid's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Madrid's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Madrid's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Madrid's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-A-11 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Madrid's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Madrid's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Madrid's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Madrid and other parties to whom the City of Madrid may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Madrid during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
October 31, 2011

CITY OF MADRID
Schedule of Findings
Year ended June 30, 2011

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF MADRID
Schedule of Findings (Continued)
Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

II-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting
- (2) Payroll preparation and distribution.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-11 Certified Budget – The Council amended the budget in June 2011, however, disbursements exceeded the amounts budgeted in the community and economic development, general government, and debt service functions during the year ended June 30, 2011. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-11 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-11 Business Transactions – No business transactions between the City and City officials or employees were noted.

CITY OF MADRID
Schedule of Findings (Continued)
Year ended June 30, 2011

III-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

III-F-11 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

The Council went into closed session several times during the year. The minutes documented a vote was taken and did record the specific information regarding the closed session, however, a roll call vote was not taken as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should take roll call vote as required.

Response – We will comply with the Code requirements for closed sessions in the future.

III-G-11 Deposits and Investments – The City has adopted an appropriate investment policy in accordance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the City has received and continues to hold shares of common stock as a donation for the new library. The holding of common stock is in violation of Chapter 12B of the Code of Iowa.

Recommendation – The City should dispose of the stock in order to comply with Chapter 12B of the Code of Iowa.

Response – We will be disposing of the stock.

Conclusion – Response accepted.

III-H-11 Transfers – The City transferred money to and from various funds and accounts at the end of the year. However, these transfers were not approved by the Council prior to the actual transfer.

Recommendation – The City should approve all fund/account transfers prior to the actual transfer and document the approval and amounts in the minutes.

Response – The City will approve and document all future transfers prior to making the actual transfer.

Conclusion – Response accepted.

CITY OF MADRID

Staff

This audit was performed by:

Bowman & Miller, P.C.
Certified Public Accountants
Marshalltown, IA 50158

Personnel:

James R. Bowman, CPA, Partner
Elizabeth A. Miller, CPA, Partner
Nathan P. Minkel, CPA, Staff
Diana S. Swanson, Staff